With effect from 22nd October 1997, the Reserve Bank of India (RBI) has given freedom to commercial banks to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). As such, the rates of interest on deposits are determined by the banks themselves.

Effective from October 18, 1994, the Reserve Bank of India (RBI) has deregulated the interest rates on advances above Rs. 2 lakhs, including the housing loans and these interest rates are determined by the banks themselves with the approval of their Board of Directors subject to Benchmark Prime Lending Rates (BPLR) and spread guidelines. In order to enhance transparency in banks pricing of their loan products, banks have been advised to fix their BPLR after taking into account (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin and ensure that the BPLR truly reflects the actual cost. Given the prevailing credit market in India and the need to continue with concessionality for small borrowers, the practice of treating BPLR as the ceiling for loans upto Rs. 2 lakhs continues. However, Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of loans for purchase of consumer durables, loans to individuals against shares and debentures/bonds, other non-priority sector personal loans, etc.

Banks can also offer loans to exporters or other creditworthy borrowers, including public enterprises, at below BPLR on the basis of a transparent and objective policy approved by their respective Boards.

**Double Taxation Avoidance Agreements**

3790. SHRI MOINUL HASSAN: Will the Minister of FINANCE be pleased to state:

(a) whether Government is considering to review the Double Taxation Avoidance Agreements to curb speculative profiteers from evading tax; and

(b) if not, the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) Whenever it comes to the notice of the Government that there is improper use of the provisions of any Double Taxation Avoidance Agreement (DTAA), measures to review that DTAA are taken in consultation with the treaty partner.

**Default Retail Debts**

3791. SHRI RAJEEV CHANDRASEKHAR: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that default Retail Debts amounting to hundreds of crores have been transferred by private/Government banks to Asset Reconstruction Companies;

(b) what is the actual total amount of retail assets gone bad, transferred to Asset Reconstruction Companies;

(c) the authority responsible for overseeing Asset Reconstruction Companies and how do they recover these bad loans;

(d) whether it is also a fact that these Asset Reconstruction Companies are in turn often selling these bad debts at huge discounts; and

(e) if so, the details of such transfer thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) and (b) Reserve Bank of India (RBI) has reported that till December 31, 2007 default retail debts amounting to Rs. 36,235.56 Crore (Book value) have been transferred by the private/Government Banks/Financial Institutions (FIs) to six Asset Reconstruction companies (ARCs) registered with RBI, at an acquisition price of Rs. 9,159.73 Crore.

(c) RBI is responsible for overseeing the operations of ARCs. These companies are granted the Certificate of Registration by RBI under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002).

RBI has prescribed detailed guidelines on sale of financial assets by banks/FIs to Securitisation Company (SC)/Reconstruction Company (RC) *vide* Circular dated April 23, 2003. These guidelines prescribe the following:

The SARFAESI Act, 2002 allows acquisition of financial assets by SC/RC from any bank/FI on such terms and conditions as may be agreed upon between them. This provides for sale of the financial assets on 'without recourse' basis, *i.e.,* with the entire credit risk associated with the financial assets being transferred to SC/RC, as well as on 'with recourse' basis, *i.e.,* subject to unrealized part of the asset reverting to the seller bank/FI. They are, however, directed to ensure that the effect of the sale of the financial assets should be such that the asset is taken off their books. After the sale there should not be any known liability devolving on the banks/FIs.

Banks/FIs, which propose to sell to SC/RC their financial assets should ensure that the sale is conducted in a prudent manner in accordance with a policy approved by their Board. The Board shall lay down policies and guidelines covering, *inter alia,* financial assets to be sold, norms and procedure for sale of such financial assets, valuation procedure to be followed and delegation of powers of various functionaries.

Each bank/FI will make its own assessment of the value oftered by the SC/RC for the financial asset and decide whether to accept or reject the offer. Under no circumstances can a transfer to the SC/RC be made at a contingent price whereby in the event of shortfall in the realization by the SC/RC, the banks/FIs would have to bear a part of the shortfall.

(d) and (e) Since ARCs operate on commerical lines it is unlikely that assets at huge discounts to purchase value are sold.